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SUBJECT: TANZANIA'S CENTRAL BANK UNDER FIRE IN PRESS FOR
CORRUPTION

Classified By: D. Purnell Delly, Deputy Chief of Mission, for reason 1.
4 (b).

¶1. SUMMARY. Throughout June and July, a steady beat of corruption claims against the Bank of Tanzania (BOT) have featured on the front pages of almost every major Tanzanian newspaper. Allegations in the press focus on the prohibitive construction costs of the new BOT "twin towers," payments made by the BOT's External Payment of Arrears (EPA) Account, and suspicious liquidation of loans to gold mining companies.

With the BOT under fire in the press, President Kikwete appointed three new deputy BOT governors on July 3, ostensibly to ensure sufficient capacity and better management of Tanzania's Central Bank. Although the BOT did finally hold a press conference on July 12 to respond to media criticism, the Bank Governor dismissed all allegations as baseless "lies" and did not address any of the claims specifically. The Government of Tanzania (GOT) has promised to investigate several of the claims and the Finance Minister has ordered a special international audit of the BOT. END SUMMARY.

Corruption Charges Snowball Against Tanzania's Central Bank

¶2. (SBU) Throughout June and July, Tanzania's print media leveled scathing criticism against the Bank of Tanzania and its Governor, Daudi Ballali, with daily front page articles alleging scandals and corrupt practices. Governor Ballali was appointed to his position by former President Benjamin Mkapa in 1998. Prior to his work with the BOT, Ballali worked for the International Monetary Fund (IMF) in Washington D.C. for 21 years. The three primary allegations against the BOT and Ballali involve: (i) the skyrocketing costs of the recently constructed BOT "twin tower" headquarters now reaching USD 340 million; (ii) a USD 30.8 million payment from the External Payment of Arrears (EPA) account through a fabricated company for forged deeds of assignments; and (iii) scandals related to gold mining ventures and an auditing assayers firm.

Over-Priced 20-Story Bank Towers....

¶3. (SBU) The ballooning construction costs of the BOT headquarters - a 65,000 square meter compound comprising two 20-story towers - have raised numerous questions in the press and in Tanzania's Parliament over the last six months. While the final cost totaled USD 340 million, according to South

Africa's Group Five Construction firm, the buildings have been valued at only USD 25.5 million. Construction began in March of 2004 and was completed in December 2006, with a cost per square meter of USD 8,625. This cost per square meter is approximately triple the cost of building in New York City and twelve times the average of cost per square meter in Tanzania.

14. (SBU) According to an April 2006 report in The Citizen, a local newspaper, Minister of Finance Zakia Meghji claimed that an increase from USD 108 to 150 million was necessary to pay for construction of the BOT towers due to exchange rate fluctuations (i.e. the depreciation of the shilling against the USD). While various price hikes in the construction costs have been justified by the government, the final amount of USD 340 million has yet to be fully explained by Government of Tanzania (GOT) officials.

Fabricated External Payment of Arrears.....

15. (SBU) The second major allegation against the BOT is that its External Payment of Arrears (EPA) Account has been enabling local companies to negotiate settlement of foreign creditors' debts, by receiving deeds of assessment, and presenting these deeds to the BOT for redemption in local currency. In September 2006, Deloitte and Touche of South Africa conducted an external audit of the BOT and revealed that between September 10 and November 3, 2005, twelve deeds of assessment were signed by foreign creditor companies from Germany, Italy, Britain, Japan, and the U.S. to the Kadoga Agriculture Limited Company. Although the deeds were from different companies, they contained the same wording and the foreign creditors all signed these deeds in Dar es Salaam on

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either October 18 or 19, 2005. The audit report highlights that this would imply several foreign creditors all traveling to Dar es Salaam to sign deeds on the same days. Further, the audit report notes that the BOT signed these deeds for redemption without conducting any background checks.

16. (SBU) According to allegations in the press, the Kadoga Agriculture Limited Company, which was established on September 29, 2005, was hastily fabricated as a means to absorb the USD 30.8 million in payments owed to foreign companies. It is important to note that after Deloitte and Touche's audit, the BOT prematurely terminated its contract with Deloitte, citing the new BOT Act of June 2006 which includes a provision that the Controller and Auditor-General (CAG) take responsibility for annual BOT audits. An international audit firm selected by the CAG's office is expected to complete an audit by the end of 2007 following Finance Minister Meghji's order for a special audit on the EPA account.

And the Yellow Brick Road

17. (SBU) English daily newspapers such as This Day and the East African have also alleged scandals linking the BOT to gold mining ventures. In particular, the press has questioned payments totaling over USD 110 million by the BOT to the bankrupt Meremeta Gold Mine to liquidate a loan issued by Nedbank Ltd. According to the press, it remains unclear why the BOT decided to clear the loan on behalf of Meremeta Gold instead of Nedbank Ltd filing its claim directly with the liquidator. The press has also focused on controversial BOT payments to TANGOLD - another gold mining company with GOT interests.

18. (SBU) Another controversy related to the gold mining sector involves a U.S. based firm called Alex Stewart Assayers. The BOT contracted Alex Stewart Assayers from June 2003 until May 2006 to address and determine the actual investment and operational costs incurred by Tanzania's big mining operators. Although the BOT paid Alex Stewart Assayers almost USD 31 million for the three years of work,

the primary conclusion of the firm was that the annual statements of big mining firms were not accurate in terms of the quantity of their gold production and transportation costs. According to the press, Alex Stewart never determined the actual expenditures of international mining firms in Tanzania which would have enabled the GOT to set more appropriate taxes.

Press Conference: Bank Governor Calls all Allegations "lies"

¶9. (SBU) In the wake of investigative news articles and mounting rumors about BOT scandals, the BOT organized a press conference on July 12, 2007. After discussing the state of the Tanzanian economy for approximately one and half hours, Governor Ballali shifted to the topic of alleged corruption within the BOT. Ballali asserted that all allegations of misappropriation of funds within the BOT were "lies." He refused to comment further on the allegations, stating that the scandals were under investigation by the government.

¶10. (SBU) On July 13, front page articles in five major English dailies (The Guardian, The Citizen, The African, This Day, and Daily News) correctly reported Ballali's statement that all allegations against him and the BOT were unfounded "lies" and most likely put forth by disgruntled businessmen whose deals had backfired. Ballali made clear to the press that, in the face of mere rumors, he had no plans to resign as Governor. (Note: Although President Kikwete has not publicly signaled any discontent with the BOT Governor, on July 3, he appointed three new BOT deputy governors - Professor Benno Ndulu, Lila Mkila, and Juma Reli - although the BOT typically only has one deputy governor position.)

¶11. (C) IMF Country Representative, David Robinson, expressed his concern regarding the alleged BOT scandals to Emboff on July 16. He noted that until external audits were completed on the Bank's External Payment of Arrears (EPA) Account and the alleged gold scandals, it would be difficult to assess

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the legitimacy of the media's claims. However, in Robinson's view, the cost of the BOT towers was the most suspicious and also would not be included in the special, international audit ordered by the Finance Minister. Further, Robinson pointed out that even an external audit on the BOT might not be able to detect corrupt practices whether it involved liquidated loans to a gold mining company or disbursements from the EPA. "If the BOT's paper trail is good enough, it may be very difficult for any audit to directly prove corrupt practices," he said.

¶12. (SBU) Allegations against the BOT seem to have even caught the IMF's attention in Washington D.C. According to a July 18 front page report in This Day, IMF Executive Board Members issued the following statement after holding a meeting on July 16: "The IMF welcomes efforts to address the allegations of improprieties in the management of the External Payment Arrears account at the Bank of Tanzania and looks forward to timely completion of the special audit." IMF Directors have also recommended a safeguards assessment of the BOT as a complement to the audit. (Note: A safeguards assessment is a diagnostic exercise carried out by IMF staff to identify vulnerabilities in governance and internal controls.) In practice, all countries that request loans from the IMF must undergo a safeguards assessment. However, given the IMF's declining role in Tanzania as far as issuing loans, the IMF's recommendation appears to be more of a means for the BOT to regain credibility and address persistent gaps in its internal governance structure.

Comment:

¶13. (C) Corruption stories against the BOT have snowballed to a point where GOT officials including the Finance Minister feel compelled to publicly promise investigations into the

various claims and order external audits. As disturbing as the accusations against the BOT are, the Governor's opaque responses to the allegations at the July 12 press conference were also deeply troubling. Although the BOT press conference appeared an attempt to address ongoing rumors and media criticism, the Governor focused his remarks on the economic health of Tanzania, brusquely dismissing corruption claims. The Kikwete administration has taken relatively mild actions related to the deluge of negative press against the BOT to date only appointing new deputy governors and promising investigations or external audits. The real test of President Kikwete's commitment to good governance and anti-corruption will be demanding that the concerned officials provide transparent and thorough evidence to explain the BOT's actions whether they involve payments to gold mining firms or massive expenditures on construction projects.

RETZER